

Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 CIAE-00 PM-07 H-03 INR-10 L-03 NSAE-00

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FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 1170

SECDEF WASHDC

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C O N F I D E N T I A L SECTION 1 OF 2 SEOUL 7817/1

STATE PASS COMMERCE

E.O. 11652: GDS

TAGS: EGEN, MASS, KS

SUBJECT: SURVEY OF POTENTIAL FOR ROK/US JOINT VENTURES IN SUPP-
ORT OF ROK DEFENSE INDUSTRY

1. SUMMARY. SURVEY CONDUCTED BY EMBASSY/JUSMAG HAS DEVELOPED PRELIMINARY LIST OF POTENTIAL AREAS FOR POSSIBLE U.S. BUSINESS INTEREST IN DEVELOPING KOREAN DEFENSE SUPPORT INDUSTRY. EFFORTS WILL CONTINUE IN ATTEMPT TO IDENTIFY ADDITIONAL CANDIDATE SITUATIONS. END SUMMARY.

2. WE HAVE COMPLETED A PRELIMINARY SURVEY OF POSSIBILITIES FOR ROK/US JOINT INDUSTRIAL VENTURES THAT WOULD ENHANCE ROK DEFENSE INDUSTRIAL BASE IN SPIRIT OF JOINT STATEMENT ISSUED AT CONCLUSION OF 6TH ROK/US SECURITY CONSULTATIVE MEETING, 13 SEP 73.

3. ASSUMPTIONS MADE WERE:

A. ROK ANNUAL QUANTITATIVE REQUIREMENTS FOR MILITARY MATERIAL IN ANY SPECIFIC COMMODITY AREA ARE INSUFFICIENT IN THEMSELVES TO MAKE A JOINT VENTURE COMMERCIALY ATTRACTIVE; THAT IS, A SUCCESS-
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FUL VENTURE WILL BE ONE WHOSE MARKET INVOLVES PRIMARILY EITHER AN

IN-COUNTRY CIVILIAN PRODUCT DEMAND OR AN EXPORT DEMAND (MILITARY OR CIVILIAN) OR BOTH, WITH SATISFACTION OF ROK MILITARY DEMAND BEING CONSIDERED A SPIN-OFF ADVANTAGE.

B. NO US GOVERNMENT FINANCIAL BACKING, EITHER GRANT-AID OR CREDIT, WOULD BE INVOLVED (EXCEPT POSSIBLY EX-IM BANK).

C. ROK MUST PROVIDE SUFFICIENT INCENTIVES INCLUDING SUBSIDIES TO MAKE VENTURES FINANCIALLY ATTRACTIVE TO U.S. CONCERNS.

D. VENTURES WOULD IN ADDITION TO CO-PRODUCTION/CO-ASSEMBLY PROJECTS FOR SPECIFIC MILITARY ITEMS SINCE THERE ARE ALREADY ESTABLISHED PROCEDURES FOR CASE-BY-CASE CONSIDERATION OF THESE PROJECTS.

4. SURVEY WAS ACCOMPLISHED BY JOINT EFFORT BETWEEN EMBASSY COMMERCIAL OFFICE AND JUSMAG/K AND INVOLVED INFORMAL MEETINGS WITH ROK MINISTRY OF NATIONAL DEFENSE (MND) AGENCIES, ROK MINISTRY OF COMMERCE AND INDUSTRY AND REPRESENTATIVES OF US AUTOMOTIVE AND ELECTRONICS FIRMS ALREADY INVOLVED IN MANUFACTURING/ASSEMBLY OPERATIONS IN KOREA. MAJOR FINDINGS WERE:

A. ROK MND AGENCIES ARE OF UNANIMOUS OPINION THAT GREATEST BENEFIT AT PRESENT WOULD BE OBTAINED FROM VENTURES THAT WOULD ASSIST IN IMPROVING IN-COUNTRY SUPPORT OF OPERATING AND MAINTENANCE (O&M) REQUIREMENTS OF THEIR ARMED FORCES. THEY ARE FACED WITH HAVING TO ASSUME WITHIN THE VERY NEAR FUTURE THE ENTIRE FINANCIAL BURDEN AND MANAGEMENT RESPONSIBILITY FOR O&M SERVICES, REPAIR PARTS AND CONSUMABLE SUPPLIES FORMERLY FURNISHED BY US UNDER GRANT AID.

B. ROK MND IS NOT PREPARED AT PRESENT TO BE SPECIFIC AS TO JOINT VENTURE CANDIDATES, BEYOND SAYING THAT THEY SHOULD CONTRIBUTE TO SATISFYING THEIR O&M NEEDS. HOWEVER, THERE IS GENERAL ROK ENTHUSIASM FOR INCREASED US (AS OPPOSED TO THIRD COUNTRY) INVESTMENT IN KOREA.

C. A NUMBER OF US AUTOMOTIVE AND ELECTRONICS FIRMS ARE ALREADY INVOLVED IN COMMERCIAL ASSEMBLY/MANUFACTURING OPERATIONS IN KOREA. FOR THAT REASON IT IS NOT CONSIDERED DESIRABLE AT THIS TIME TO ATTRACT NEW US JOINT VENTURES TO HELP ROK WITH AUTOMOTIVE AND ELECTRONIC REPAIR PARTS PROBLEMS. INSTEAD, IT IS BELIEVED APPROPRIATE TO INVESTIGATE POSSIBILITIES FOR INCREASED RESPONSIVENESS OF THESE EXISTING FIRMS TO ROK MILITARY NEEDS. THE EMBASSY COMMERCIAL OFFICE AND JUSMAG/K HAVE INITIATED AND WILL CONTINUE SUCH EXPLORATIONS HERE.

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5. BASED ON THE ABOVE ASSUMPTIONS AND FINDINGS, OUR CURRENT JUDGEMENT IS THAT THE BEST, THOUGH BY NO MEANS GUARANTEED, POTENTIAL FOR NEW US JOINT VENTURES OF BENEFIT TO ROK MILITARY LIES IN THE AREAS OF MAINTENANCE AND OVERHAUL FACILITIES, SOME AMMUNITION COMPONENTS AND SOME MORE BASIC SUPPORTIVE INDUSTRIES AS DETAILED BELOW. IN VIEW OF CURRENT LACK OF ROK COMMITMENTS TO ANY SPECIFIC VENTURE CANDIDATES, BELIEVE WE MUST EXERCISE CAUTION IN USING

OUR LIST OF POTENTIAL CANDIDATES TO INVITE US FIRMS TO KOREA. THAT IS, IT SHOULD BE CLEARLY UNDERSTOOD BY ANY INTERESTED FIRMS THAT THERE CAN BE NO US GOVERNMENT GUARANTEE OF SUCCESSFUL VENTURES IN THE AREAS LISTED.

A. AIRCRAFT MAINTENANCE AND OVERHAUL. ASSUMES BOTH MILITARY AND COMMERCIAL CUSTOMERS. INTEREST SHOWN RECENTLY IN THIS AREA BY VISITING REPRESENTATIVES OF LOCKHEED AIRCRAFT AND, INDEPENDENTLY, BY PERSONNEL OF E-SYSTEMS, INC.

B. COMMUNICATIONS/ELECTRONICS EQUIPMENT MAINTENANCE AND OVERHAUL. BECAUSE OF THEIR INVOLVEMENT IN THE CURRENT CO-PRODUCTION PROGRAM FOR AN/PRC-77 RADIOS, E-SYSTEMS, INC. MAY HAVE HEAD START IN THIS AREA.

C. HOROLOGICAL DEVICE MANUFACTURE. PRODUCTS WOULD INCLUDE PRECISION SMALL PARTS TYPICAL OF WATCHES AND TIMING MECHANISMS FOR POSSIBLE EXPORT MARKETS BUT WITH SPIN-OFF ADVANTAGE OF PROVIDING SOURCE FOR MUNITIONS FUZES.

D. CHEMICALS/EXPLOSIVES/PROPELLANTS. EXAMPLES SINGLE AND DOUBLE-BASE PROPELLANTS, RDX, TNT, ACIDS, QUALITY WAX, ETHYLENE GLYCOL. KOREA EXPLOSIVES COMPANY CURRENTLY DOING SMALL SCALE WORK IN THIS AREA BUT HAVE LITTLE REALIZED CAPACITY. MAY BE OF INTEREST TO ONE OF US FIRMS NOW OPERATING US ARMY AMMUNITION PLANTS MANUFACTURING PROPELLANTS AND EXPLOSIVES.

E. SPECIALTY ALLOYS, FERROUS AND NON-FERROUS. UNDERSTAND CARPENTER TECHNOLOGY CORP. MAY BE PLANNING JOINT VENTURE IN THIS AREA SOON.

F. SPECIALTY SHAPING, FORMING AND JOINING CAPABILITIES. EXAMPLES ARE LIGHT AND HEAVY FORGING.

G. HEAVY FOUNDRY CAPABILITIES AND MACHINE TOOL FABRICATION.

H. PRECISION GLASS SHAPING AND FORMING OPERATIONS. EXAMPLE OF PRODUCT WOULD BE QUALITY OPTICAL COMPONENTS.

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ACTION EA-14

INFO OCT-01 ISO-00 CIAE-00 PM-07 H-03 INR-10 L-03 NSAE-00

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C O N F I D E N T I A L FINAL SECTION OF 2 SEOUL 7817/2

6. WE EXPECT THAT ABOVE LIST OF CANDIDATE JOINT VENTURE AREAS WILL BE USEFUL TO WASHINGTON AGENCIES IN CONTACTS WITH US FIRMS WHICH MIGHT BE INTERESTED IN KOREA. MEANWHILE, EMBASSY AND JUSMAG/K WILL CONTINUE EFFORTS WITH ROKG AGENCIES AND KOREAN AND AMERICAN BUSINESSMEN HERE TO IDENTIFY SPECIFIC SITUATIONS WHERE U.S. FIRMS MIGHT PROFITABLY PARTICIPATE IN KOREA'S DEFENSE SUPPORT INDUSTRY. WE WILL SUBMIT ADDITIONAL INDIVIDUAL REPORTS AS THESE DEVELOPMENTS WARRANT.

7. FOR COMMERCE:

A. EMBASSY COMMERCIAL OFFICE INVOLVEMENT IN SURVEY AND CONTINUING SUPPORTIVE ACTIVITY IS BASED ON TRADITIONAL ROLE OF ASSISTING U.S. BUSINESSMEN WITH LOCAL MARKET INFORMATION AND WITH BUSINESS AND OFFICIAL CONTACTS IN THE DEVELOPMENT OF THEIR BUSINESS INTERESTS IN KOREA. AS INDICATED IN ABOVE, DEFENSE ASPECT GENERALLY SECONDARY TO DEVELOPMENT CIVILIAN MARKET POTENTIAL. FURTHERMORE, IN KEEPING WITH CURRENT GUIDELINES, EMBASSY SUPPORT FOR INVESTMENT IS BASED ON PRIOR INDIVIDUAL COMPANY DECISIONS AND POTENTIAL OF INVESTMENT TO LEND POSITIVE SUPPORT TO U.S. BALANCE OF PAYMENTS.

B. DR. SHIM, MOOK TAIK, HEAD OF ROK AGENCY FOR DEFENSE DEVELOPMENT WILL BE VISITING WASHINGTON FIRST WEEK OF DECEMBER AND CONFIDENTIAL

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WILL BE PAYING CALL ON SECRETARY CLEMENTS. HE CAN BE REACHED THROUGH ASSISTANT DEFENSE ATTACHE, KIM SUNG JIN, OF ROK EMBASSY. SINCE COMMERCIAL OFFICE OF EMBASSY WILL BE LENDING SUPPORT TO COUNTRY TEAM EFFORT TO ENLARGE SCOPE OF GENERAL U.S. BUSINESS ACTIVITY WHICH COULD INCIDENTALLY ASSIST ROK DEFENSE, WE RECOMMEND THAT COMMERCE OFFICES CONCERNED -- PERHAPS INVESTMENT AND SPECIAL PROJECTS -- ARRANGE FOR BRIEFING BY DR. SHIM ON SCOPE OF ROK PROBLEMS IN AREA OF DEFENSE OPERATIONS AND MAINTENANCE SUPPORT. THIS WOULD ASSIST COMMERCE IN LENDING KNOWLEDGEABLE SUPPORT TO EMBASSY COMMERCIAL EFFORT IN THAT PARTICULAR AREA. HABIB

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